



WSIB Update for the LEOFF Board



**Theresa Whitmarsh
Executive Director
August 2013**



Overview



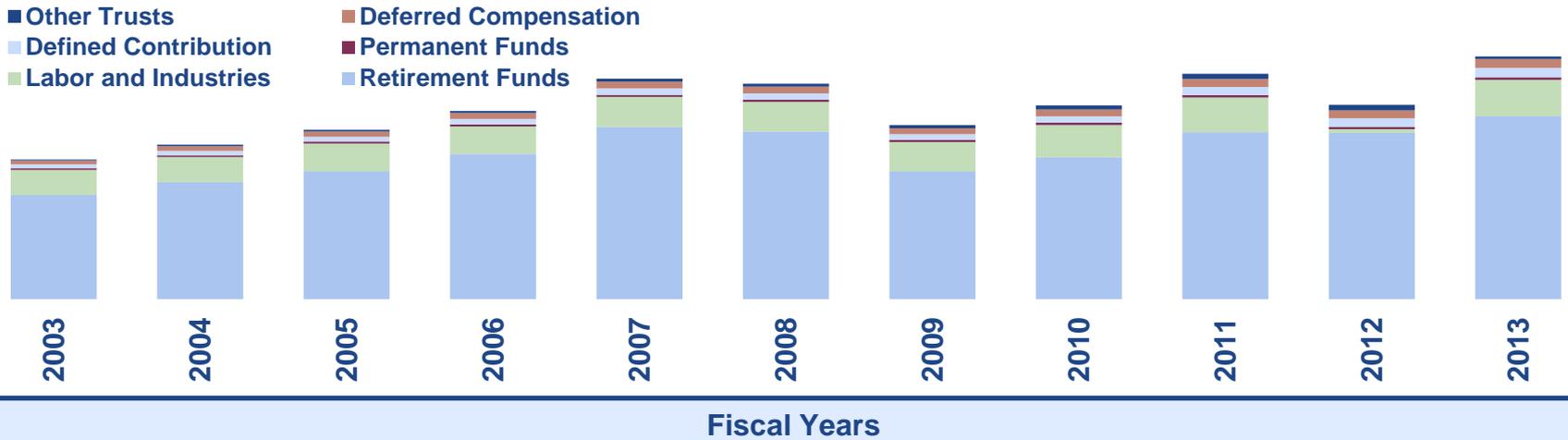
- ▣ **WSIB Investment Responsibility**
- ▣ **Board Oversight**
- ▣ **Commingled Trust Fund (CTF) Performance and Market Values**
- ▣ **Source of WSIB Excellent Performance**
- ▣ **What Risks/Threats We Face**
- ▣ **Economic Outlook**
- ▣ **CTF Well Diversified**
- ▣ **Conclusion**



Manage Key State Assets

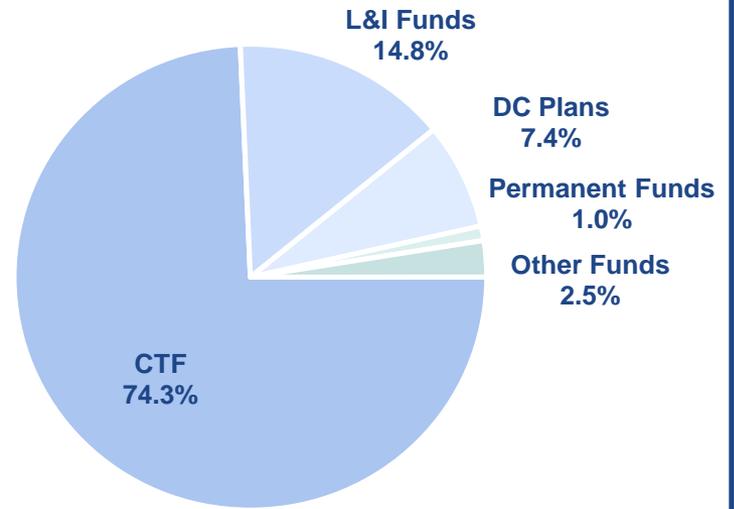
June 30, 2013

Past 10 Fiscal Years



Market Values and Allocation (in billions)

CTF	\$67.9	74.3%
L&I Funds	\$13.5	14.8%
DC Plans	\$6.7	7.4%
Permanent Funds	\$0.9	1.0%
Other Funds	\$2.3	2.5%
Total Assets Under Management	\$91.4	





Overseen by an Excellent Board



The 10 voting and 5 non-voting members of the Board are fiduciaries whose mission is to manage investments for retirement and other public funds with the exclusive benefit of beneficiaries

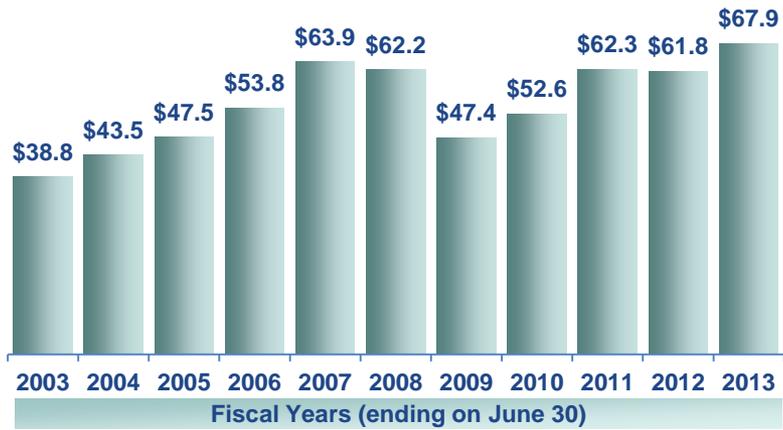
The WSIB adheres to rigorous conflict of interest policies to ensure the highest standards of ethical behavior and conduct.

	Appointment Authority	Name	Position
10 Voting	Ex-Officio	Jim McIntire, Chair	State Treasurer
		Marcie Frost	Director, DRS
		Joel Sacks	Director, Labor & Industries
	Senate President	Sharon Nelson	State Senator
	House Speaker	Sharon Tomiko Santos	State Representative
	Governor	Natasha Williams	Active Member, PERS
		George Masten	Retired Member, PERS
Kelly Fox		Active Member, LEOFF	
Superintendent of Public Instruction	Arlista D. Holman	Active Member, SERS	
	Mike Ragan, Vice Chair	Active Member, TRS	
5 Investment Professionals	Selected by the Board	Robert Nakahara	
		Jeffrey Seely	
		David Nierenberg	
		William A. Longbrake	
		Richard Muhlebach	

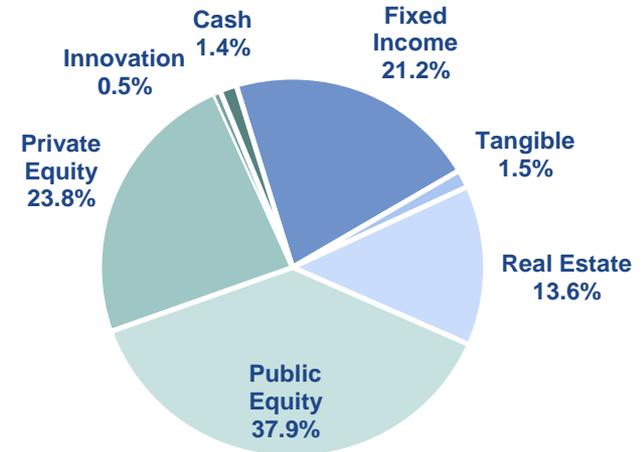
Deliver Excellent Performance

Commingled Trust Fund Performance & Market Values – June 30, 2013

Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



Market Values and Returns

Commingled Trust Fund (CTF) Market Values and Returns

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	\$67,902,495,169	12.36%	11.33%	3.81%	8.32%
Fixed Income	\$14,422,417,970	0.80%	4.56%	6.41%	5.55%
Tangibles	\$1,031,996,930	-1.75%	2.27%	1.34%	N/A
Real Estate	\$9,244,467,624	17.86%	13.54%	0.89%	9.51%
Public Equity	\$25,724,015,814	17.83%	13.30%	2.94%	7.72%
Private Equity	\$16,170,202,574	13.56%	14.12%	4.94%	14.03%
Innovation	\$363,365,896	30.63%	-0.44%	N/A	N/A
Cash	\$946,028,362	0.16%	0.16%	0.40%	1.79%

Source of WSIB Excellent Performance



- ❑ One of the most respected institutional investors in the nation: We manage more than \$90 billion in 33 funds, invested in 74 countries, on six continents in 49 currencies
- ❑ Guided by an engaged and skillful Board that has made good governance a high priority, demonstrates respect for one another and staff, has committed to continually improving its investment decision making process, and conducts itself in a fully transparent and ethical manner
- ❑ Served by a highly professional staff that has been enhanced over the last decade by drawing from the best and brightest from both the private sector and from within state service who come to us because they believe in us as a destination employer
- ❑ Served by the most sought after investment managers in the world because WSIB is a knowledgeable, fair, and consistent partner and our reputation enhances their position in the marketplace
- ❑ Aided by cutting edge technology and analytical services, as well as a robust and proprietary risk framework that gives us insights into our portfolio that when deployed correctly, will provide a significant competitive advantage over our peers
- ❑ Enjoy a terrific reputation; supported by beneficiaries who believe in the WSIB brand and respected by the Legislature for our professional investment management services



What Risks/Threats We Face



Value Will Be Tougher to Deliver

- ❑ Challenging capital markets that may make earning rates of returns at the level we desire not possible
 - ❑ Raises the important question of where the source of value creation will come from in the future and how will we identify those sources
- ❑ Global strategy brings with it geopolitical risks that often trump market fundamentals
 - ❑ Staff wearing out shoe leather all over the world to, more often than not, walk away from opportunities based on return/risk profiles
- ❑ Will the fiscal and monetary policy responses to the current fiscal crisis breed the next global crisis and, if so, how do we prepare
 - ❑ Cheap credit
 - ❑ Increased debt levels in developed markets

What Risks/Threats We Face



Value Will Be Tougher to Deliver (continued)

- ❑ Competition for partners, deals, and staff in private markets, which has been our historical competitive advantage, has intensified with the rise of sovereign wealth funds, emerging market pension funds, and family wealth offices
 - ❑ Drives up prices and fees and salaries for public fund staff with expertise in private markets
 - ❑ Valuations unsustainable in crowded markets
- ❑ Size of capital we need to deploy becomes a hindrance with limited opportunity set in certain desirable strategies
 - ❑ Small and mid-cap equities
 - ❑ Small and mid-cap buyouts
 - ❑ Small to mid opportunistic real estate

Must reach deeper in these challenging markets to achieve the desired return

What Risks/Threats We Face



Support – We Can't Take it For Granted

- ❑ Turnover in political leadership – need for ongoing investment in educating Legislature and executive branch
 - ❑ And tough to get anyone's attention during transition
- ❑ Increased pressure for socially motivated investing/divesting
 - ❑ Divestiture of fossil fuels
 - ❑ Divesting gun manufacturers
 - ❑ In state investing
- ❑ Spillover from poor pension fund governance and investment fund performance in other states continues to create a challenge for differentiating the WSIB
- ❑ In a period of slow growth for the state with accompanying budget constraints on the general fund, difficult for the WSIB not to stand out

Will need to tell the WSIB Story 1,000 times!



Global

- ❑ Global recovery will be weak
 - ❑ Developed world will continue to have slow growth of 0 to 2 percent while emerging markets will have below-trend growth of 4 to 5 percent
- ❑ Productivity is key to higher-trend growth
- ❑ In many countries, monetary and fiscal policies have run their limits, implementing structural reforms becomes more urgent for recovery to be sustainable
- ❑ Emerging markets, though slowing, still have higher growth, lower debt, and lower fiscal deficits, in general, compared to the developed world
- ❑ Policy risk is high
- ❑ Other risks include geopolitical risk, protectionism, and social instability
- ❑ Problems of youth unemployment and income inequality are widespread



Economic Outlook



U.S.

- ❑ U.S. will continue to grow between 1 and 2 percent
- ❑ U.S. economy will continue to perform better than Europe and Japan
- ❑ Fiscal drag is still an issue
 - ❑ Higher taxes and spending cuts will slow growth
- ❑ Inflation will continue to be subdued
- ❑ Capital expenditures and employment are key to determining whether recovery is sustainable or not
- ❑ Housing will continue to recover, but is it sustainable?
 - ❑ In some markets, cash-rich investors are outbidding and pricing out first-time homebuyers who rely on mortgage loans
- ❑ Third round of Quantitative Easing (QE3) will end; timing is data dependent
- ❑ Is the economy strong enough for higher interest rates?
 - ❑ Data is still mixed as to whether or not U.S. growth is on strong footing
- ❑ Policy uncertainties are still weighing on consumer and business sentiment, growth, debt, and long-term fiscal balance
- ❑ Many believe QE has caused excessive risk taking



Eurozone

- ❑ Still on track for negative growth in 2013
- ❑ Debt crisis is not over yet
- ❑ Governments attempt to strike a balance between growth and austerity
 - ❑ It is difficult to grow when economies are not competitive
- ❑ Fiscal and banking unions continue to be difficult to achieve
- ❑ Social instability due to high unemployment continues to be relatively high

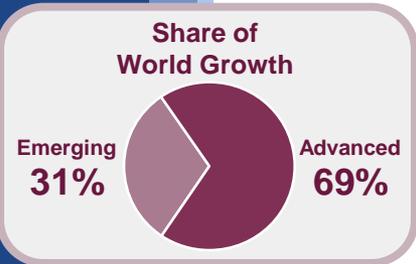
Japan

- ❑ Massive fiscal and monetary stimulus
- ❑ Structural reforms are needed to achieve sustainable growth

Economic Outlook – Emerging Markets will Drive Global Growth

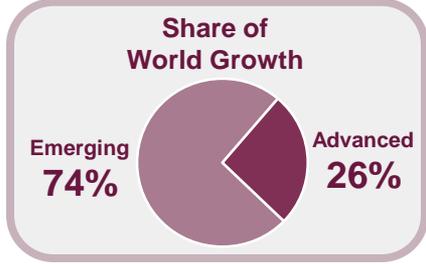
The Top 10 Leaders of Global Growth

Share of global growth (%)



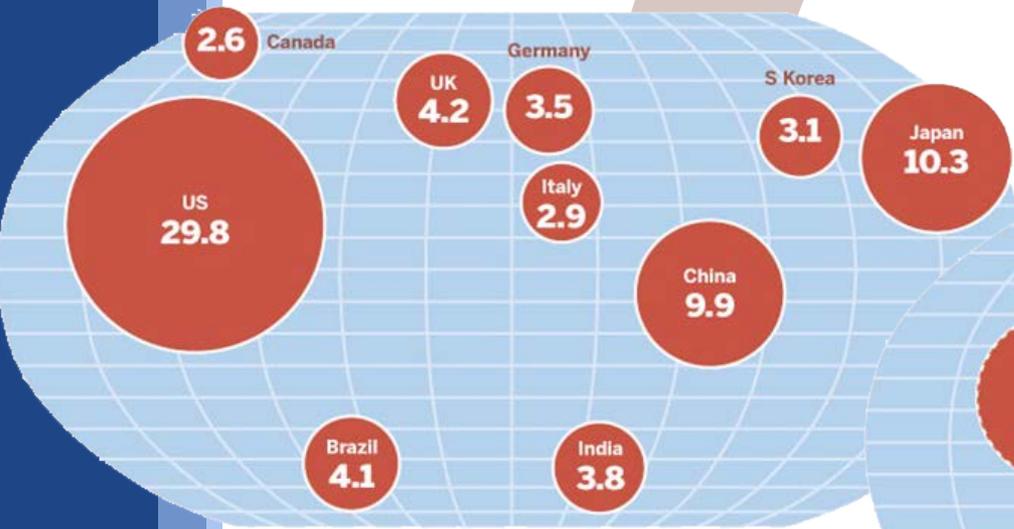
1982-87

A traditional textbook world economy: growth is concentrated in the U.S., Japan, and Europe. Living standards in the countries that industrialized 100 years earlier are still pulling away from what is still known as the third world. Rapid growth in China is only beginning to make its mark.



2012-17

The future of world growth is increasingly dominated by China, soon to be the world's largest economy. Only the U.S. and India provide any rivalry and, so weak is prospective European growth, that the EU accounts for less than 6 per cent of the global total. Only Latin America and India are increasing their share.



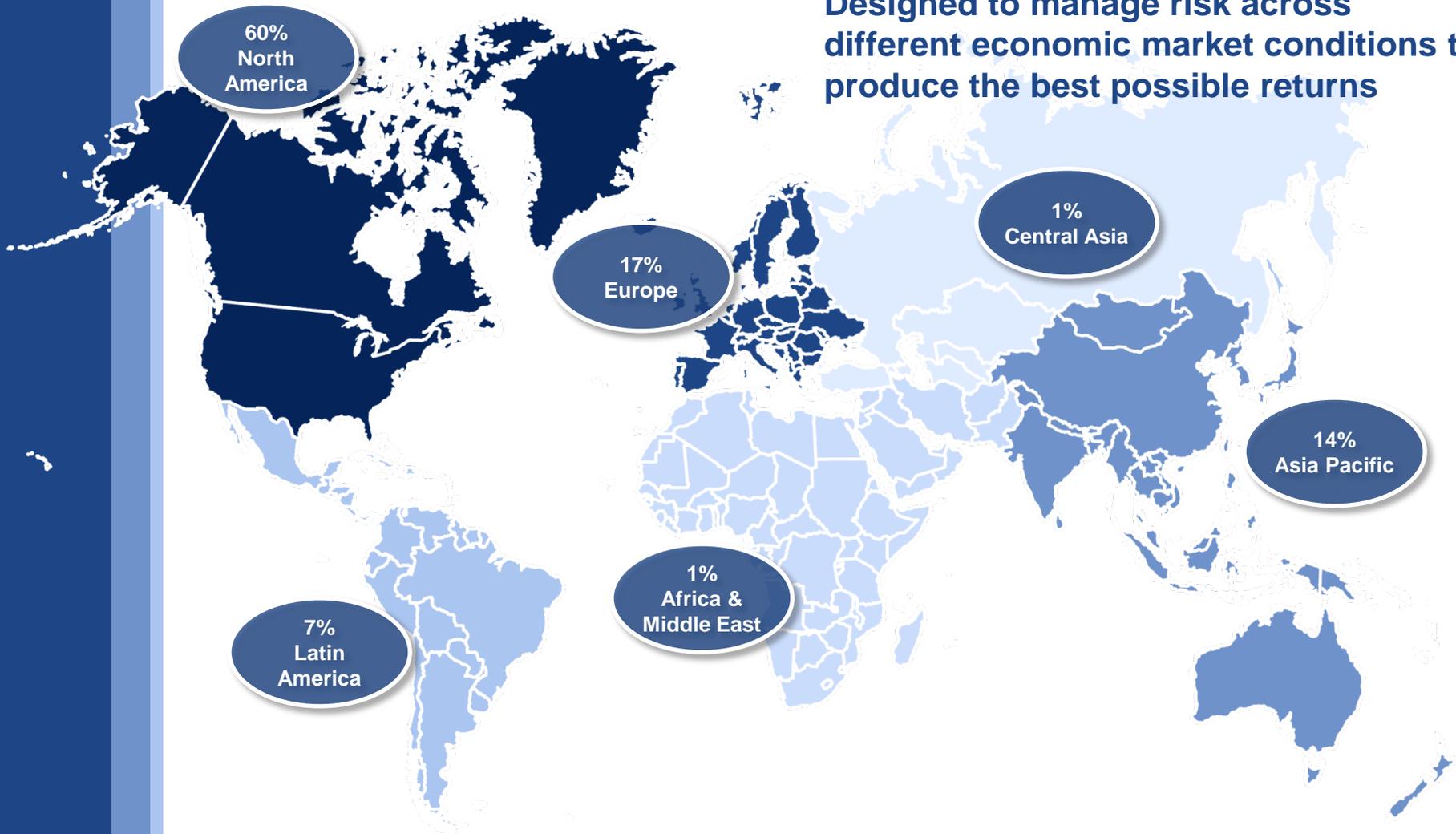
The Financial Times, June 5, 2013



CTF Well Diversified – Geographic Diversification

June 30, 2013

Designed to manage risk across different economic market conditions to produce the best possible returns



Despite Challenges – WSIB Still Performing Well



8.68% – CTF rate of return since inception (1992) – The WSIB’s long-term investment strategy has helped make Washington’s public pension system one of the four best funded in the nation

Roughly, 84 cents of every dollar needed to pay benefits is generated by our investment returns

All expenses of the WSIB are funded from the earnings of the funds managed by the WSIB at no cost to state taxpayers

International benchmarking studies have consistently ranked the WSIB in the top number of low cost and high performing institutional investors